

### City of San Jose Structural Deficit Elimination Plan

In November 2008, the City of San Jose released the General Fund Structural Deficit Elimination Plan, which outlined specific strategies and timelines to eliminate the structural budget deficit over a three year period. The plan described a total cumulative structural deficit of \$106 million for the next five years. In finalizing the plan, it was recommended that the three year timeframe to eliminate the deficit be extended to five years, ending in Fiscal Year 2014.

A series of thirteen Budget Principles were recommended for adoption to help prevent the City from again developing a structural budget deficit.

#### ***City of San Jose Budget Principles:***

1. The General Fund Budget shall be structurally balanced in each year of the five-year budget projection;
2. General Fund proposed budget balancing plan shall be presented in the context of the five-year forecast;
3. One-time resources shall not be used for current or new ongoing operating expenses;
4. New unbudgeted requests during the year shall be considered in light of the unfunded programs list and include an offset to have a net-zero effect on budget;
5. All City funds shall maintain an adequate reserve level – 3% for General Fund;
6. The City shall not issue long-term General Fund debt to support ongoing costs unless it achieves net operating cost savings;
7. Negotiations for employee compensation shall focus on cost of total compensation while considering the City's fiscal condition, revenue growth, and changes in the CPI;
8. Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding \$100,000 in the General Fund without City Council certification that funding will be made available in applicable year.
9. Fee increases shall be utilized, where possible, to assure that fee program operating costs are fully covered by fee revenue and explore opportunities to establish new fees for service where appropriate;
10. City staff shall seek out, apply for, and effectively administer federal, State and other grants that address the City's priorities and policy objectives;
11. The General Plan shall be used as primary long-term fiscal planning tool;
12. All requests for departmental funding shall include performance measurement data so that requests can be reviewed in light of service level outcomes to the community and organization;
13. The inclusion of the closure, sale or relocation of a fire station as part of the City budget is prohibited without prior assessment, community outreach, and City Council approval on the matter.

An update to the plan was issued in February 2009, including revised revenue and expenditure projections, and an increased cumulative structural deficit of \$116 million was reported at that time. The greatest annual amount of \$67 million was expected in Fiscal Year 2010. The update acknowledges that the deep global recession resulted in downward revisions to revenue estimates for existing sources, as well as for the estimates for revenue strategies, since the original plan. The February 2009 update indicates that no strategies have been eliminated from consideration since the original plan. The identified strategies now ranged in total value from \$154 million to \$184 million, for the five-year period.

The City of San Jose's Fiscal Year 2009 Adopted Budget also included Budget Balancing Strategy Guidelines that were approved by the Council. The strategies outlined in the deficit elimination plan are a model to achieve a balanced budget within five years, with every strategy linked to a Budget Principle and in alignment with the Budget Guidelines.

***City of San Jose Budget Balancing Strategy Guidelines:***

1. Develop a budget that balances the City's delivery of essential services to the community, including building strong neighborhoods and supporting economic growth, with the resources available;
2. Resolve the projected budget deficit with ongoing revenue and expenditures solutions to ensure no negative impact on future budgets;
3. Use fee increases, where possible, to assure that operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services where appropriate;
4. Explore expanding and/or re-directing existing revenue sources and/or adding new revenue sources for addressing both the structural deficit and unfunded needs, such as infrastructure maintenance backlog or the unfunded liability associated with post-employment health benefits;
5. Focus on protecting core City services for both the short- and long-term. Analyze all existing services and target service reductions or eliminations in those areas that are least essential;
6. Defer any new program commitments and initiations or program expansions, unless these commitments stimulate the local economy, job creation, generate new revenues and/or are funded through redeployment of existing resources;
7. Consider alternative service delivery mechanisms to ensure no service overlap, reduce and/or share costs, and use our resources more efficiently and effectively;
8. Focus on improving employee productivity and business practices, including streamlining, innovating, and simplifying City operations;
9. Use the General Plan as a primary long-term fiscal planning tool and link ability to provide City services to development policy decisions;
10. Continue to make community and employee involvement a priority for budget balancing idea development;
11. Make every effort to eliminate positions, rather than filled positions, to limit the number of employee layoffs;
12. Explore personnel services cost savings, subject to the meet and confer process by 1) considering further incorporation of total compensation bargaining concepts and focusing on all personnel services cost changes (e.g., salary step increases, benefit cost increases), 2) civilianizing more sworn positions, 3) exploring alternative benefit structures for new employees, and 4) changing employee/retiree health care benefit plan designs.

The City Manager's General Fund Structural Deficit Task Force worked with a consulting firm to solicit input and feedback on potential strategies to address the structural deficit, through focus groups with a wide variety of stakeholders including community and business groups, City boards and commissions, City employees, labor unions and City management. They also conducted employee and community surveys and performed benchmarking against "best practice" cities including Phoenix, Austin, Long Beach, Minneapolis, Virginia Beach, Fairfax County- all of whom have been recognized for their long term sound financial practices.

Over 320 suggested strategies were identified and screened against qualification/disqualification criteria. The screening process resulted in 194 of the suggested strategies qualifying for further analysis. Of those that did not move forward, many could not be realistically implemented within the three year timeframe.

Eleven of the strategies were identified as "Urgent" that needed immediate attention in order to meet timeframes for ballot measures or other requirements. Ultimately, two ballot measures (out of five considered) were placed on the November 2008 ballot and were passed by voters related to the telecommunications users tax and the 9-1-1 fee. These measures reduced the structural budget deficit by \$20 million.

***City of San Jose Qualification Criteria:***

1. Preliminary benchmarking information shows that San Jose is below market (revenues) or above market (expenditures);
2. Strategy is being used in a best practice jurisdiction or a peer jurisdiction;
3. Prior work by budget office or other City department has made a convincing argument for change;
4. Practice is out of alignment with current City objectives or planning

***City of San Jose Disqualification Criteria:***

1. Strategy cannot be effectively implemented in three-year timeframe;
2. Strategy would not reduce deficit or if it does would have greater longer run costs;
3. Strategy is not consistent with current Council three-year goals;
4. Strategy would have a limited impact, and cannot logically be combined with other similar strategies.

The top twenty-one strategies to eliminate the deficit were assigned to three discrete categories:

1. Cost Savings Strategies
2. Revenue Strategies
3. Service Reductions /Eliminations

On November 5, 2009, the City of San Jose held a City Council budget planning session for the Fiscal Year 2011 budget. The FY 2011 budget deficit for the City of San Jose is now estimated at \$96 million, up from earlier estimates of \$36 million, with the increase primarily due to expected increases for pension payment requirements. The three major strategies under consideration are to reduce per employee costs; reduce/eliminate services; and, increased/new revenue.

Because of the implementation time frame required for many of the strategies under study in the earlier plan, the City of San Jose is recommending a thorough prioritization of City services at the program level to aid in its service reduction/elimination decision making process, which comprises the largest component of the structural budget deficit elimination plan. The prioritization process will include input from the community and stakeholders, City staff, management, and elected officials.